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THE COTTON SITUATION

This month's issue of The Cotton Situation includes the regular annual outlook report on cotton. Released by the Bureau of Agricultural Economics and the Agricultural Marketing Service on November 7, the report has been slightly revised in keeping with subsequent developments.

REVIEW OF RECENT DEVELOPMENTS

A continued high rate of domestic mill consumption, an increased rate of industrial production, a marked increase in domestic exports, and the recently announced Government loan all contributed to the recent strengthening of domestic prices.

A net advance of approximately one-half cent in domestic cotton prices since the latter part of October raised the 10-market average of Middling 7/8 inch to 9.45 cents per pound on November 24. This was approximately three-fourths cent above the November 1938 average and nearly 1 cent above prices just before the outbreak of the European war. It was only slightly below the high for the season to date.

In October domestic mill consumption of cotton increased seasonally over September to a level 29 percent above October last year. The October total was the fourth largest for any month on record. Mill activity, adjusted for seasonal variation, remained about the same during the first 3 weeks of November as in October, according to trade reports. Since September, however, manufacturers' sales of cotton goods apparently have been considerably below production, with a consequent reduction in unfilled orders. Nevertheless, unfilled orders are still believed to be fairly large. From August

through October, domestic mill consumption (1,940,000 running bales) was 333,000 bales larger than a year earlier and the largest for the period on record.

On November 24, Liverpool prices of American cotton were somewhat lower relative to prices of Indian Ocmra No. 1 and Brazilian Sao Paulo Fair than a month earlier. American cotton, however, was in a considerably more favorable competitive position relative to Indian and Brazilian growths and in a somewhat more favorable position relative to Egyptian Uppers than before the domestic export-payment program went into effect in late July. On November 24, the spread between the Liverpool and New Orleans price of American Middling was about 2.60 cents, nearly 1 cent greater than a month earlier and the largest spread since shortly after the close of the World War. Furthermore, this spread probably was about $1\frac{1}{2}$ cents less than it would have been except for the domestic export subsidy payment of 1.5 cents per pound. The unusually high spread reflects increased ocean freight rates, high war-risk insurance, and other increased costs of transporting American cotton to Liverpool.

Exports of American cotton during the month ending November 23, totaling about 700,000 running bales, were 43 percent larger than a year earlier, despite some reported shortage of shipping facilities for exporting to the "war zone" since November 4. From August 1 to November 24, domestic exports totaled nearly 2,200,000 bales, and were about 700,000 bales or almost 50 percent larger than exports to the same date last season. They were slightly smaller than exports during the corresponding period of 1937. Exports to Great Britain from August 1 to November 23 were nearly four times as large as the unusually small exports of a year earlier; and exports to

most other important European importing countries, other than the German-controlled region, were from 15 to 70 percent larger than to the same date last season. Exports to Japan to November 23 were 16 percent smaller than a year earlier.

Reports indicate that cotton mill activity in Great Britain, France, Italy, and some of the other European countries has been at a comparatively high level during recent weeks. In the German-controlled area of Europe, cotton consumption is thought to be somewhat less than before the outbreak of the war. In the Orient, cotton consumption has increased somewhat since the early part of the season.

THE COTTON OUTLOOK FOR 1940
(Revised as of November 27)

Summary

Cotton supplies may decline somewhat in 1940-41 from present near-record level

The world supply of all growths of cotton in 1940-41 is expected to be somewhat less than the record or near-record supplies of roughly 50,000,000 bales in each of the three seasons, 1937-38 to 1939-40. This would be about a fifth larger than the average for the 10 years ended with 1937-38. World mill consumption in 1939-40 is expected to about equal the 1939-40 crop, now estimated at approximately 27,800,000 bales. This indicates a carry-over of all growths of cotton on August 1, 1940, not materially different from the near-record stocks of 21,500,000 bales at the beginning of the current season. With the same harvested acreage as in 1939, and with yields equal to the 5-year, 1934-38, average the 1940 production of American cotton would be considerably less than that of 1939. The 1940-41 foreign crop is expected to show at least some decline.

The world carry-over of American cotton on August 1, 1939, was about 14,000,000 bales, a new high. Even with a below-average crop the indicated 1939-40 world supply of American cotton of 25,700,000 bales is only slightly below the peak supply of 1932-33. It is a little larger than the 1938-39 supply and 3,800,000 bales above the 10-year average. But as of late November, a little over 10,100,000 bales of the indicated supply is either owned or held as collateral against loans by the United States Government, excluding cotton exchanged to Great Britain. Very little of this is likely to be available for consumption or merchandizing purposes during the current season unless the price for Middling 7/8 inch cotton in the 10 designated markets advances above 9-1/2 cents in the near future or higher later on as additional carrying charges accumulate.

Should loan stocks at the end of the present season be about the same as at present the world carry-over of "free" American cotton on August 1, 1940, including the cotton traded to Great Britain, might be only a little larger than the small volume a year earlier. The total supply of American cotton might reasonably be expected to be smaller in 1940-41 than in the present season.

The estimated 1939-40 world supply of 23,600,000 bales of foreign grown commercial cotton is 1,100,000 bales below that for the 1938-39 season but 8,000,000 bales more than in 1932-33. It is more than one-fifth larger than the 10-year, 1928-37, average. It now seems probable that the world carry-over of non-American cotton on August 1, 1940, may be about the same as a year earlier but that the 1940-41 foreign crop may be somewhat smaller.

World consumption prospects uncertain - No increase in total expected

World mill consumption of all growths in 1938-39 was about 28,500,000 bales. This was second only to the peak consumption of 30,600,000 bales in 1936-37, and 11 percent above the 1928-37 average.

Prospective increases in consumption in the United States and in certain foreign countries in 1939-40 are expected to offset at least most of the decreases in prospect in belligerent European countries and elsewhere. But there appears to be little likelihood that total world consumption of all growths will exceed that of 1938-39 and it may be considerably smaller.

Any decrease in total world consumption in 1939-40 is expected to be in foreign growths. The consumption of American cotton is expected to exceed the comparatively small 1938-39 consumption of 11,281,000 bales because of a prospective substantial increase in the United States. Consumption of American cotton in foreign countries may only about equal the comparatively small quantity of 4,500,000 bales consumed in 1938-39. But exports of American cotton are expected to increase materially as compared with the unusually small volume of only 3,300,000 bales in 1938-39. Exports seem likely to be sufficiently large to result in an increase in foreign stocks of American cotton on August 1, 1940 over the low level of a year earlier.

Cotton prices and incomes from cotton relatively low

United States farm prices of cotton during the first 3 months of the 1939-40 season averaged 8.85 cents per pound or 7 percent higher than a year earlier but were about 2.2 cents below the average for the 10 years 1928-37. With domestic export payments, increased total supplies of American cotton, and reduced total supplies of foreign cotton, the price ratios of other growths to American in foreign markets have increased during recent months from the low levels reached in the 1938-39 season, thereby improving the competitive position of American cotton. Most of these ratios in November averaged above the 10-year average.

With prices about unchanged from the previous year and a United States crop 37 percent below that of 1937, gross returns to farmers from cotton and cottonseed, excluding Government payments with respect to cotton, in the 1938-39 season were about 35 percent smaller than in the previous season and 30 percent less than the average for the 10 years 1928-37. Prices about equal to the average level for August through November, together with the November estimate of the 1939 crop, would result in some increase in gross returns from cotton and cottonseed in 1939-40. But Government payments with respect to cotton will be much smaller in 1939-40 than in the previous season and total returns including such payments will be less than for any season since 1932-33

Supply

Supply continues at record high levels

A world supply (carry-over on August 1, 1939, plus production or ginnings in 1939-40) of all cotton for the current season of about 49,300,000 bales is indicated from prospects in late November. This is only slightly less than the record high supplies of each of the two previous seasons and 8,000,000 bales or about a fifth more than the average for the 10 years ended 1937-38. It is 4,900,000 bales larger than the peak reached before 1937-38. Present (late November) estimates indicate a decrease of about 1,100,000 bales in the supply of foreign cotton, but the supply of American is expected to be about 300,000 bales larger than in 1938-39. World supplies of foreign growths have decreased about 2,300,000 bales since the peak reached in 1937-38, whereas supplies of American cotton have increased by about 1,100,000 bales over those of 1937-38.

The 1939-40 supply of American cotton is now estimated at 25,700,000 running bales, or about 300,000 more than last season but slightly less than the record supplies of 26,200,000 bales in 1933-34. It is 3,800,000 bales or 17 percent larger than the 10-year average.

In late November, however, a little over 10,100,000 bales (excluding cotton traded to Great Britain) of the indicated 1939-40 world supply of American cotton were in the United States Government loan stocks. This figure compares with nearly 10,000,000 bales on November 30 last season. Of the total current loan stocks approximately 6,100,000 bales are owned by the Government and 4,000,000 bales held as collateral against loans to farmers. The deduction of present loan stocks and the indicated world consumption, would give an indicated world stocks of "free" American cotton, including mill stocks, as of August 1, 1940 only a little larger than the unusually small "free" stocks on August 1, 1939. Farmers may repossess cotton held as collateral by repaying their loan plus carrying charges and about 500,000 bales have been thus far repossessed from cotton placed in the loan during the 1938-39 season. As of the end of October the loan plus the carrying charges on this cotton was equivalent to about 9-1/2 cents per pound basis Middling 7/8 inch. Carrying charges on loan stocks are about 0.05 cents per month. But as to the 6,100,000 bales of cotton owned by the Government, legislative restrictions prevent its sale in regular channels

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of trade during the current season except at prices substantially higher than present values, i.e., equal to loan values plus carrying charges which now (late November) range from 10-1/2 cents to more than 16 cents for Middling 7/8-inch.

The estimated 1939-40 world commercial supply of foreign-grown cotton, of approximately 23,600,000 bales of 478 pounds net, is about 1,100,000 bales less than that for last season, but 4,200,000 more than the 10-year average and 8,000,000 bales more than in 1932-33. It is, however, approximately 2,300,000 bales less than the peak reached in 1937-38.

Cotton, American, foreign, and all growths: Carry-over, production, and supply

Season	American			Foreign			All growths		
beginning	Carry-over	Production	Supply	Carry-over	Production	Supply	Carry-over	Production	Supply
Aug. 1	1/	1/	1/	1/	1/	1/	1/	1/	1/
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	bales	bales	bales	bales	bales	bales	bales	bales	bales
Average :									
1928-37 :	8,293	13,655	21,948	6,033	13,365	19,398	14,326	27,020	41,346
1932 :	13,263	12,961	26,224	5,073	10,500	15,573	18,336	23,461	41,797
1933 :	11,809	12,712	24,521	5,307	13,354	18,661	17,116	26,066	43,182
1934 :	10,701	9,576	20,277	6,839	13,466	20,305	17,540	23,042	40,582
1935 :	9,041	10,495	19,536	6,031	15,646	21,677	15,072	25,141	41,213
1936 :	6,998	12,375	19,373	6,651	18,421	25,072	13,649	30,796	44,445
1937 :	6,235	18,412	24,647	7,531	18,372	25,903	13,766	36,784	50,550
1938 :	13,712	11,665	25,377	8,927	15,742	24,669	22,639	27,407	50,046
1939 2/ :	14,030	11,675	25,705	7,432	16,163	23,595	21,462	27,838	49,300
	1938 as a percentage of 10-year average and of 1937								
10-year average :	169.2	85.5	117.1	123.2	120.9	121.6	149.8	103.0	119.2
1938 :	102.3	100.1	101.3	83.3	102.7	195.6	94.8	101.6	98.5

1/ Ginnings from August 1 to July 31 plus the "city crop", which consists of rebaled samples, sweepings, and pickings from cotton damaged by weather, fire, etc.

2/ Preliminary.

Compiled from reports of the New York Cotton Exchange Service. American cotton in running bales counting round bales as half bales and foreign in bales of 478 pounds net weight.

The indicated supplies of Indian and Egyptian cotton are about equal to the 1928-37 average, but the supply of other foreign growths is about 43 percent larger than average and almost double that of 1932-33. This marked increase in supplies of foreign cotton other than Indian and Egyptian has taken place despite drastic reduction in supplies of Chinese cotton since the beginning of hostilities with Japan in 1937 and mainly as a result of increased supplies of Brazilian, Russian, and miscellaneous growths.

With prospects for comparatively little change in the carry-over of American and foreign cottons on August 1, 1940, changes in world supplies next season will largely depend upon the size of the 1940-41 crop. Cotton-acreage allotments under the 1940 Agricultural Adjustment program will be about the same as those for 1939 but estimated yields per acre for 1939 are higher than average. Some indications point toward a reduction in foreign cotton production in 1940-41.

Carry-over at near-record high

The total world carry-over of all growths on August 1, 1939, of nearly 21,500,000 bales, was slightly (5 percent) less than the record high of the previous season and equal to about 75 percent of mill consumption last season. This total was 7,100,000 larger than the average for the 10 years ended with 1937-38, of which increase about four-fifths was in American. In 1939 the world carry-over of American cotton totaled a little over 14,000,000 bales or 300,000 bales more than on August 1, 1938, but the 7,400,000-bale carry-over of foreign cotton was 1,500,000 bales smaller than a year earlier.

The world carry-over of American cotton on August 1, 1940, is expected to be somewhat smaller than the record high stocks for the beginning of the current season. The carry-over of foreign cotton seems likely to show little change.

Production much below the peak, but about average

World production of commercial cotton for the 1939-40 season is expected (in late November) to total about 27,800,000 bales. This is slightly more than in the previous season and about 800,000 bales more than the 10-year average. Such a crop, however, is nearly one-fourth less than the record production of 36,800,000 bales in 1937-38. It is the third largest in history.

The United States crop of 11,845,000 bales of 478 pounds net, according to the November estimate, is equivalent to approximately 11,675,000 running bales. This is about the same as that for last season, but 37 percent smaller than the record 1937 crop. It is about 2,000,000 bales less than the 10-year average.

The 24,200,000 acres left for harvest in 1939 is about the same as for last season, but about 30 percent below the 10-year average. The indicated yield for the current season is nearly 43 pounds larger than the 10-year average and, with the exception of the two preceding crops, the largest in history. The high indicated yield for the current season, like that of most other years since 1932-33, is largely accounted for by the selection of land better adapted to cotton production, soil improvement, better seed, improved cultural practices, and comparatively light boll-weevil damage.

The production of commercial cotton in foreign countries in 1939-40 is expected (in late November) to be about 16,200,000 bales of 478 pounds net.

This is slightly more than in the previous season, the third largest in history, and 2,800,000 bales or 21 percent larger than the 10-year (1928-37) average, but 2,300,000 bales smaller than the record crop of 1936-37. In 1932-33 the production of foreign cotton was only 10,500,000 bales or about two-thirds the indicated crop for the current season. The prospective small increase in the 1939-40 crop in comparison with 1938-39 production is accounted for by slight increases in Brazil, India, Egypt, and certain other countries - these increases more than offsetting decreases in China and various other countries.

Although production in several foreign countries has decreased somewhat from the peak levels reached a few years ago, the drop in the Chinese crop of commercial cotton from 3,200,000 in 1936-37 to only about 800,000 in 1939-40 explains a large part of this reduction. The current Chinese crop as now estimated is less than half as large as the average for the 10 years 1927-38. The sharp upward trend in Brazilian cotton production has leveled off during the last few years, but the current crop of about 2,200,000 bales is approximately twice as large as the 10-year average. Russian production has increased materially and in 1939-40 is estimated to be approximately almost double the 10-year average. In 1939-40 the comparatively high level of cotton production appears to have been about maintained or increased in Peru, Turkey, Iran, Chosen, Sudan, Belgian Congo, Uganda, and in certain other small producing countries. These smaller cotton-growing countries, each producing less than 500,000 bales, in the aggregate, account for a substantial part of the total foreign crop.

The indicated 1939-40 Indian commercial crop of about 4,800,000 bales is not greatly different from either that of 1938-39 or of the 10-year average (1928-37). It is nearly 900,000 bales less than the peak production in 1936-37. The indicated 1939-40 Egyptian crop of 1,750,000 bales is also about the same as in the previous season. It is about 500,000 bales less than the peak production for 1937-38 and about equal to the average.

In the United States the 1940 national allotment will be about 27,500,000 acres. Allotments for 1939 totaled about 28,000,000 acres, but the area planted to cotton totaled only 24,900,000 acres. With yields per acre equal to the average for the 5 years 1934-38, an acreage equal to that planted last season would give a crop 1,100,000 bales less than in 1939.

Present conditions indicate that the crop in foreign countries during the 1940-41 season may be reduced somewhat below that for 1939 but it is likely to continue above the average for the 10 years 1928-37. Should the demand for food crops in relation to available supplies increase more than that for cotton, as now seems probable, particularly in belligerent countries, cotton production in India, Egypt, and in a number of other countries might decline to some extent. Chinese production in 1940 may increase over the unusually small crop of 1939, particularly if weather conditions are more nearly normal. In Brazil the sharp upward trend in production seems to have leveled off; and with difficulty in making sales for export in that country's principal European markets and with some possibility of lower prices relative to competitive crops, acreage might be reduced some-

what in 1940. Somewhat the same situation may prevail in certain other countries such as Peru, Argentina, Mexico, Turkey, and Iran. In Russia it is possible that cotton production might be stimulated by the European war and the Russo-German trade pact.

Consumption

World mill consumption increased - Second largest on record

World mill consumption of all growths of cotton in 1938-39 totaled nearly 28,500,000 bales. This was about 800,000 bales more than in 1937-38 and was 2,700,000 bales larger than the average for the decade ended 1937-38. Although world consumption in 1938-39 was the second largest in history it was 2,100,000 bales less than the peak consumption of 30,600,000 bales in 1936-37.

Mill consumption is expected to decrease in belligerent European countries during 1939-40, as was the case during the World War. This prospective decrease may be offset by the indicated increase in the United States and in certain other countries. But there appears to be little prospect for total world consumption in 1939-40 exceeding that for 1938-39 and it may be considerably smaller.

United States consumption expected to increase again

Consumption of nearly 6,900,000 bales of all growths of cotton in the United States during 1938-39 was the largest, with one exception, since 1928-29. It was about 1,100,000 bales more than that for 1937-38 and approximately 800,000 bales more than the 10-year (1928-37) average. Increased consumer buying coupled with small stocks of cotton textiles in channels of distribution at the beginning of the 1938-39 season stimulated domestic mill consumption during the past season.

Mill sales and deliveries of unfinished cotton cloth and yarn were unusually large during August and September 1939 and mill stocks of cotton-textile materials are now reported to be comparatively small. Mill consumption for the first 4 months of the current season was well above the high level for a year earlier. This and prospects for a higher level of industrial activity and pay rolls during the 1939-40 season, indicate that consumption in the United States will exceed that for last season and it may approximate the record consumption of nearly 8,000,000 bales in 1936-37.

Mill consumption in foreign countries expected to decrease

Mill consumption of all growths in foreign countries totaled about 21,700,000 bales in 1938-39. This was about 300,000 bales less than in the previous season but approximately 1,900,000 bales more than the 10-year average. Should there be a material reduction in the 1939-40 consumption in belligerent European countries, as now seems probable, it is unlikely that increases in other foreign countries will be sufficient to counter-balance the decrease.

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Consumption of American cotton in countries other than the United States decreased sharply in 1938-39, amounting to only slightly more than 4,500,000 bales, the smallest since the end of the World War (1918-19) and 2,300,000 bales less than the 10-year average. Consumption of American cotton in foreign countries totaled 8,400,000 bales in 1932-33.

With American cotton constituting a somewhat larger percentage of total world supplies in 1939-40 than in the previous season, with export payments on American cotton, and with a probable greater decline in the use of foreign cotton than American in the German controlled area, the consumption of American cotton abroad is expected to constitute a larger proportion of total foreign consumption than in 1938-39. This is more especially so if the cotton traded to the British Government for rubber is made available to British spinners to draw on this season. Exports of American cotton totaled only about 3,300,000 bales in 1938-39 - the smallest in almost 60 years. And stocks of this growth in foreign cotton-consuming countries are now comparatively small. Early season prospects indicate a marked increase in exports from the United States during 1939-40. From August 1 to November 24 exports were about 50 percent larger than a year earlier.

Cotton, American, foreign, and all growths: Mill consumption in the United States, foreign countries, and the world

Season begin- ning Aug. 1	United States			Foreign countries			World		
	Ameri- can	Foreign	Total	Ameri- can	Foreign	Total	Ameri- can	Foreign	Total
	bales	bales	bales	bales	bales	bales	bales	bales	bales
Average :									
1928-37 :	5,881	176	6,057	6,886	12,819	19,705	12,767	12,995	25,762
1932 :	6,004	133	6,137	8,381	10,133	18,514	14,385	10,266	24,651
1933 :	5,553	147	5,700	8,227	11,675	19,902	13,780	11,822	25,602
1934 :	5,241	120	5,361	5,965	14,154	20,119	11,206	14,274	25,480
1935 :	6,221	130	6,351	6,282	14,896	21,178	12,503	15,026	27,529
1936 :	7,768	182	7,950	5,325	17,359	22,684	13,093	17,541	30,634
1937 :	5,516	132	5,748	5,254	1/16,744	1/21,998	10,870	1/16,876	1/27,746
1938 2/ :	6,736	122	6,858	4,545	17,115	21,660	11,281	17,237	28,518
10-year :	1938 as a percentage of 10-year average and 1937								
average :	114.5	69.3	113.2	66.0	133.5	109.9	88.4	132.6	110.7
1937 :	119.9	92.4	119.3	86.5	102.2	98.5	103.8	102.1	102.8

1/ Does not include 100,000 bales destroyed in China.

2/ Preliminary.

Compiled from reports of the New York Cotton Exchange Service, except United States consumption which is from Bureau of the Census reports. American cotton in running bales and foreign in equivalent bales of 478 pounds net weight.

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If the British convoy system is successful, consumption of American cotton in the United Kingdom and France in 1939-40 may not be materially different from that consumed in these countries last season, although the consumption of foreign growths may decrease with smaller exports of cloth, and yarn and reduced consumption for non-military purposes. Consumption of American and the total of all kinds may decrease substantially in Germany and in German-controlled territory (Poland, Czechoslovakia, and Austria) where about 1,900,000 bales of cotton were consumed in 1938-39, about one-third of which was American. This seems likely in view of the British blockade, a shortage of foreign exchange and increased substitution of rayon for cotton. The anticipated decrease in American cotton consumption in belligerent European countries may be about offset by increases in the consumption of American cotton in the neutral countries of Europe, particularly Italy and Spain, and in Japan where cotton-textile exports are expected to increase.

Cotton, American, foreign, and all growths: Mill.
consumption in specified regions of Europe

Season beginning:	United Kingdom and France			Germany, etc. 1/			Other European countries, excluding Russia		
Aug. 1	American	Foreign	Total	American	Foreign	Total	American	Foreign	Total
	: 1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales
Average:									
1928-37:	1,988	1,802	3,790	1,239	765	2,005	1,454	1,008	2,462
1932:	2,173	1,373	3,546	1,546	407	1,953	1,725	672	2,397
1933:	2,184	1,657	3,841	1,639	685	2,322	1,730	818	2,548
1934:	1,476	2,151	3,627	818	843	1,661	1,351	1,212	2,563
1935:	1,955	2,093	4,048	938	1,106	2,044	1,276	1,147	2,423
1936:	1,810	2,419	4,229	746	1,174	1,920	1,040	1,198	2,238
1937:	1,782	1,991	3,773	758	1,165	1,923	1,098	1,356	2,454
1938 2/:	1,577	2,409	3,986	560	1,325	1,885	1,013	1,465	2,478
	1938 as percentage of 10-year average and of 1937								
10-yr.av.	79.3	133.7	105.2	45.2	173.0	94.0	69.7	145.2	100.6
1937:	88.5	121.0	105.6	73.9	113.7	98.0	92.3	108.0	101.0

1/ Germany, Poland, Czechoslovakia, and Austria - consumption in Austria partly estimated on the basis of imports.

2/ Preliminary.

Compiled from reports of the New York Cotton Exchange. American in running bales and foreign in equivalent bales of 478 pounds net weight.

Consumption of non-American cotton in countries other than the United States totaled 17,100,000 bales in 1938-39 or slightly more than in the previous season and was nearly 4,300,000 bales larger than the 10-year average. It was the second largest on record. With a marked reduction in

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the use of non-American cotton in belligerent European countries, total consumption of such cotton may be down considerably in 1939-40 from that of the previous season. Consumption of foreign cotton in the United Kingdom and France amounted to about 2,400,000 bales in 1938-39.

With the increased cost of importing cotton, with increased competition from American cotton, and with a probable decline in cotton textile exports, the consumption of non-American cotton is likely to be smaller in England and France during 1939-40 than in the previous season. With prospects of increased difficulties in obtaining cotton in Germany, a substantial reduction particularly in the consumption of growths other than American is expected in German territory, where more than 1,300,000 bales of such cotton were consumed in 1938-39. These anticipated decreases in the consumption of foreign growths in European countries now at war and some probable decrease in other areas seem likely to be offset to some extent by an increase in Japanese consumption of non-American cotton and by a continuation of the upward trend in mill consumption of native cotton in India, Russia, Brazil, and various other cotton-growing countries.

Cotton: Prices and farm returns, United States

		Cotton prices		Gross returns during marketing season				
		Weighted	Average			Total, including		
Season	beginning	average	for 10			Government		
Aug. 1	received	desig-	Cotton	Cotton-	ment	payments	Actual	Adjusted to
	by pro-	nated		seed	1/		prices paid	the 1910-14
	ducers	markets					by farmers	level of
		Cents per	Cents per	Million	Million	Million	Million	Million
		pound	pound	dollars	dollars	dollars	dollars	dollars
Average								
1928-37		11.08	11.32	752.4	100.1	---	912.7	654.6
1932		6.52	7.15	424.1	40.4	---	464.4	403.9
1933		10.17	10.81	630.0	48.5	179.7	858.2	686.6
1934		12.36	12.36	629.1	105.9	115.2	850.1	649.0
1935		11.09	11.55	590.2	105.0	160.2	855.4	673.6
1936		12.33	12.70	764.4	141.3	82.4	988.1	737.4
1937		8.41	8.66	796.2	116.4	65.1	977.6	746.3
1938		8.60	8.70	513.1	80.6	266.0	859.7	682.3
1939 2/		8.85	8.90					
1938 as percentage of 10-year average and of 1937								
10-yr.av.		77.6	76.9	68.2	80.5	---	94.2	104.2
1937		102.3	100.5	64.5	69.3	408.6	87.9	91.4

1/ Payments with respect to cotton.

2/ Prices for August, September, and October.

Prices and IncomeCotton prices up slightly in the United States

The United States farm prices of cotton averaged 8.6 cents in the 1938-39 season, or slightly higher than a year earlier but about 2.5 cents below the 1928-37 average. The slight advance in cotton prices in 1938-39 occurred despite a decline in the general level of commodity prices and was attributed largely to an increase in demand and to a reduction in supplies of "free" cotton.

Prices of spot cotton continued high in relation to prices of futures contracts throughout most of the 1938-39 season. This high basis along with high prices of near-month futures in relation to those for the more distant months increased the hazards of accumulating and carrying stocks of cotton. But toward the end of the 1938-39 season, prices of spot cotton declined in relation to prices of futures contracts.

During the first 3 months of the current season the price received by domestic producers averaged about 7 percent higher than a year earlier.

Liverpool price ratios of foreign growths to American increased

Prices of Indian, Egyptian, and Brazilian cottons declined in relation to prices of American in Liverpool during most of 1938-39 and averaged considerably lower than for any other recent year. Considerable increase in the ratios of prices of these growths to those of American has occurred since the latter part of the 1938-39 season. In November 1939 these price ratios were above the 1928-37 average, except in the case of Egyptian. The indicated increase in supplies of American in relation to the total supplies of other growths, along with export payments on American cotton, are favorable to maintaining or increasing the recent improvement in the competitive price position of American cotton in foreign markets.

Farm returns from cotton decrease

Gross returns to farmers from cotton and cottonseed in the 1938-39 marketing season were almost 35 percent smaller than in the previous season and 30 percent smaller than the average for the 10 years 1928-37. The decrease in 1938-39 is accounted for largely by a decrease of about 37 percent in the size of the United States crop. The combined returns to growers from cotton and cottonseed, together with a large increase in Government payments with respect to cotton in 1938-39, were considerably less than in the previous season and somewhat smaller than the 10-year average but were almost twice as large as in 1932-33. When adjusted for changes in prices of things farmers buy, gross returns from cotton and cottonseed in 1938-39, including Government payments, were about 8 percent smaller than in the previous season but were 4 percent larger than the 10-year average.

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Should cotton prices continue through the rest of the 1939-40 season at about the average level for August through November such prices, with the November estimate of the 1939 crop, would result in gross farm incomes from cotton and cottonseed, excluding Government payments, in 1939-40 slightly larger than in the previous season. With Government payments with respect

Cotton: Spot price per pound and price ratios for specified growths at Liverpool

Season :	Average price of / / /				Price ratio for specified		
beginning:	spot cotton / / /				growths to American Middling		
Aug. 1 :	American	Indian	Egyptian	Brazilian	:	:	:
:	Middling	Oomra	Uppers	Sao	Indian	Egyptian	Brazilian
:	7/8	and	F.G.G.	Paulo	:	:	:
:	inch	No. 1 Fine		Fair	:	:	:
Average :	Cents	Cents	Cents	Cents	Percent	Percent	Percent
1928-37 :	13.26	10.12	15.46	12.93	76.3	116.6	97.5
1932 :	8.52	7.29	10.61	8.61	86.1	125.2	101.0
1933 :	12.47	9.35	13.77	12.28	75.3	110.8	98.8
1934 :	14.24	10.78	15.49	13.86	75.8	108.8	97.4
1935 :	13.50	10.78	15.49	13.45	80.0	114.8	99.8
1936 :	14.62	10.87	17.40	14.12	74.4	119.0	96.6
1937 :	10.31	7.96	13.10	10.18	77.1	126.7	98.7
1938 :	10.15	7.14	11.80	9.63	70.4	116.5	94.9
1939 1/ :	10.62	8.08	11.90	10.12	76.1	112.1	95.3
:	1939 as percentage of 10-year average and of 1938						
10-yr av.:	80.1	79.8	77.0	78.3	99.7	96.1	97.7
1938 :	104.6	113.2	100.8	105.1	108.1	96.2	100.4

1/ Average price for August, September, and October.

Computed from reports of the Liverpool Cotton Association.

to cotton this season much smaller than in 1938-39, even though larger than the 1933-37 average, gross incomes including Government payments in 1939-40 would be less than for any other crop since 1932-33.

Domestic Staple Situation

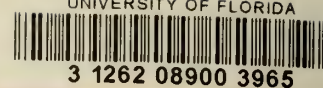
The domestic supply of nearly 8,000,000 bales of the shorter staple lengths (shorter than 15/16 inch) will be somewhat larger in 1939-40 than the comparatively small volume in the previous season, according to present indications. The marked decrease in the proportion of the shorter lengths in the supply of upland cotton during recent seasons (from a 10-year average of 45 percent of the total to 33 percent during the last two seasons) reflects con-

tinued progress in the improvement of the staple length of the United States cotton crop. And despite the decreased proportion of upland cotton shorter than 7/8 inch, central-market discounts for Middling 13/16-inch from the price of Middling 7/8 inch in the early part of the 1939 season averaged nearly 90 points compared with the 10-year average (1928-37) of only slightly more than 60 points. Thus, discounts for the shorter staples of upland cotton continue comparatively wide although staple premiums for cotton longer than 7/8 inch have narrowed considerably during recent years.

The indicated domestic supply of staples ranging from 15/16 inch to 1-5/32 inches for the 1939-40 season of almost 16,500,000 bales is the largest in history and roughly 6,000,000 bales larger than the 10-year average (1928-37). With the marked actual and relative increase in the supply of the medium and long staples of American upland cotton during recent years, staple premiums in central markets have narrowed substantially. For Middling 1-inch cotton the average premium of only about 35 points in October of the 1939-40 season compared with an average of approximately 55 points in 1938-39 and a 10-year average of about 80 points. For Middling 1-1/16 inches, premiums were about 55 points against 85 points in 1938-39 and a 10-year average of 135 points. For Middling 1-1/8 inches, premiums in October were about 150 points compared with 180 for the previous season and about 195 for the 10 years ended with 1937-38. Increased relative production and supplies of the longer staples together with the lower level of cotton prices, have resulted in lower staple premiums in recent years. Expressed as percentages of Middling 7/8-inch staple, however, premiums for the current season compare somewhat more favorably with average premiums over a period of years. A comparatively large proportion of the total supply of 7/8-inch cotton appears to be held in Government loan stocks and it may be that this has tended to hold up the price of 7/8-inch in relation to other staple lengths. Nevertheless, there still is ample incentive for the production of the longer lengths (longer than 7/8 inch) in those regions where production costs are about the same for the shorter as for the longer staple varieties. And for staples shorter than 7/8-inch, discounts are wider than the 10-year average.

The supply of upland cotton 1-3/16 inches and longer indicated for 1939-40 is expected in late November to be considerably less than that for the previous season and also less than average. The supply of this cotton is comparatively small, averaging less than 300,000 bales in recent years. The premium for 1-3/16-inches cotton averaged about 290 points over Middling 7/8-inch in October of the 1939-40 season. This was about 6 percent lower than the average premium of approximately 310 points last season and during the 10-year period ended with 1937-38. The premiums for 1-1/4 inches in October were about 10 percent lower than the average for last season or the 10-year period.

The supply of extra-long staple American-Egyptian and Sea Island cotton is expected to be approximately 37,000 bales (5,000 Sea Island and 32,000 American-Egyptian) in 1939-40, or 10 percent more than in the previous season.



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New England mill prices for Pima No. 2, 1-9/16 inches (American-Egyptian) averaged about 22.1 cents during the 1938-39 season against 24.6 cents early this season. The consumption of American-Egyptian cotton last season amounted to about 18,600 bales and Sea Island to approximately 2,600 bales, whereas consumption of extra-long staple cotton imported from Egypt approximated 50,000 bales. Should there be difficulties in importing the extra-long staples of Egyptian cotton -- this and the relatively small stocks of such cotton in the United States at the beginning of the current season may result in some increase in the demand for American-Egyptian and Sea Island cotton during the 1939-40 season. But during September and October American-Egyptian cotton sold at a premium over imported extra-long staple Egyptian cotton in domestic mill centers, whereas last season the opposite was true.